HOUSING MARKET OUTLOOK
Victoria CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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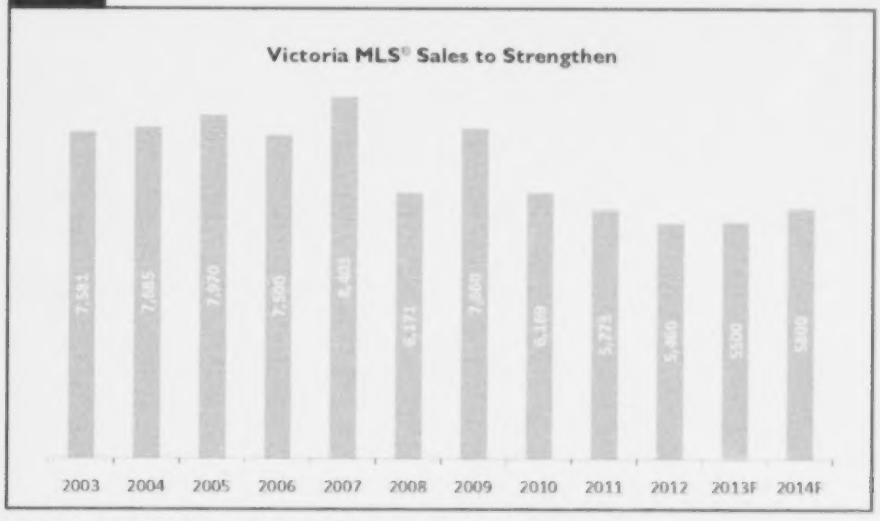
Victoria Highlights[1]

- Resale transactions in 2013 are expected to reach 5,500 units, up from 5,460 units in 2012. In 2014, resale transactions will increase further to 5,800 units. Buyers will continue to benefit from an ample supply of listings and price competition among sellers.
- Existing home prices are forecast to be stable in 2013. Expect prices to edge higher, increasing two per cent in 2014 as demand improves and the supply of listings is drawn down.
- Competition from a well-supplied resale market and lingering inventories of new, completed and unoccupied units are expected to limit growth in home starts this year.

Figure 1



Source: Canadian Real Estate Association (CREA), CMHC forecast

[1] The forecasts included in this document are based on information available as of April 26, 2013.

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- Improving economic and labour market conditions will mean slightly lower rental apartment vacancy rates in 2013 and 2014.

Greater Victoria Resales to Increase Modestly[2]

MLS® sales in Greater Victoria are expected to remain below the ten-year annual average of just over 7,000 sales for the forecast horizon through to 2014. The number of new MLS® listings will edge down in response to recent declines in both the number of resale transactions and average resale prices. As a result, the annual average MLS® sales price will edge down slightly, before improving in 2014.

Moderation continued to be the main theme through the first quarter of 2013 as illustrated by the 18 per cent decline in existing home sales compared to a year ago. The decrease in MLS® sales was recorded in all market segments – single-detached homes, row homes, and condominium apartments. Home ownership demand was tempered by a slower than anticipated recovery in full-time employment. With existing home sales moving lower and new MLS® listings trending down as well, the resale market has remained in buyers' territory.

The pace of sales is forecast to pick during the rest of the year. Resale transactions in 2013 are expected to reach 5,500 units, up from 5,460 units in 2012. In 2014, MLS® sales will increase further to 5,800 units. Low interest rates will remain a key driver of demand in the near-term, particularly since limited job growth will be recorded this year.

At the same time that the pace of sales is expected to increase, there will be more homes listed for sale. Low levels of sales have kept the total stock of active listings on the market near peak levels reached during the 2008 downturn. Expect the supply of active listings to begin moving lower during the second half of 2013 as homeownership demand improves. However, a combination of increasing sales and an increase in the number of new listings will mean that Victoria will remain in buyers' market conditions for the remainder of this year and into 2014.

The aggregate average home prices moderated in early 2013; however some municipalities recorded higher prices. The average MLS® price in Greater Victoria decreased five per cent in the first quarter of 2013 compared to 2012, reflecting a downward trend in sales and an ample supply of listings. The average resale price edged down by three per cent for single-detached homes. The average first quarter price for a single-detached homes decreased in the range of 5 to 12 per cent in Oak Bay, Langford, Victoria and Saanich West. In contrast, Sooke and Saanich East single-detached home prices increased by two per cent in the first quarter.

First-quarter resale apartment condominium prices decreased 10 per cent across Greater Victoria, compared to the same period in 2012 contributing to a slight overall average price decline forecast for 2013. Condominium price trends varied by municipality: Esquimalt and Victoria West had the largest decreases in apartment condominium prices while most other municipalities including Victoria had more muted price declines in the first quarter of 2013. Apartment condominium prices were higher than last year in View Royal, Oak Bay and Saanich East.

Expectations are for an increase in the number of MLS® sales and an elevated level of active listings, which will contribute to a flatter trend for average MLS® prices in the Greater Victoria region during the remainder of 2013 and into 2014. Average MLS® prices in the Greater Victoria region are projected to decline 0.9 per cent in 2013 and then to increase 2.1 per cent in 2014. West Shore will continue to be the most modestly priced submarket in Greater Victoria.

New Home Construction Stable

Competition from a well-supplied resale market is expected to limit growth in home starts this year in the Victoria Census Metropolitan Area (CMA)[4]. Housing starts are expected to remain steady at approximately 1,700 units in 2013, the same as in 2012, and increase to 1,800 units in 2014. Single-detached housing starts are expected to increase to approximately 600 units in 2013 and 720 units in 2014. Multiple-family housing starts, which are projected

[2] The Victoria resale market refers to the area served by the Victoria Real Estate Board (VREB). This area includes Greater Victoria (from Sooke to Sidney), up-Island as far as Cherry Point Road in Cobble Hill, and the Gulf Islands (source: www.vreb.org).

[3] Multiple Listing Services (MLS®) is a registered certification mark owned by the Canadian Real Estate Association (CREA).

[4] The Victoria CMA is similar to the Greater Victoria area outlined by VREB, but does not include the Gulf Islands, Malahat, Shawnigan Lake, Mill Bay, or Cobble Hill.

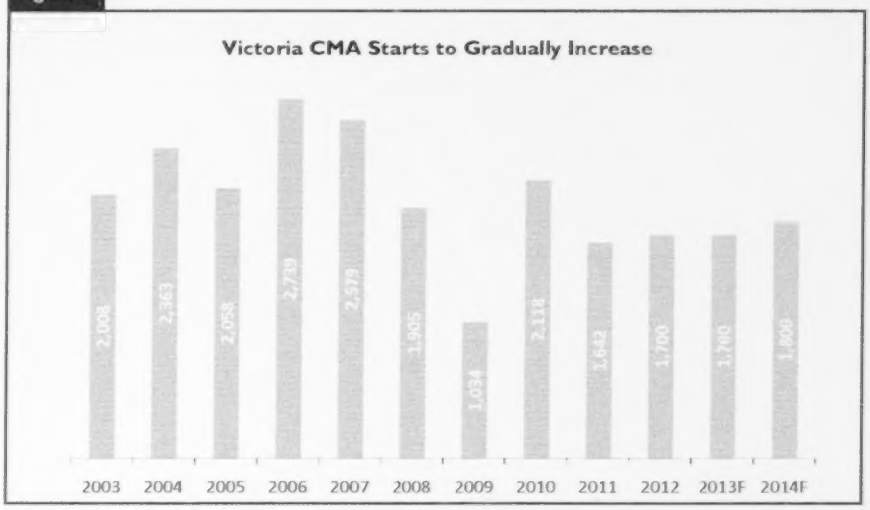
to decline to 1,100 units in 2013 and 1,080 units in 2014, will continue to account for the largest share of new construction in the Victoria CMA.

The stable levels of starts predicted for 2013 and 2014 are consistent with the number of projects currently under development or on hold. Most proposed projects underway are of the single-phase variety, with smaller units marketed at a lower price point. Developers are focusing on a lower price point in an attempt to attract first-time home buyers, and those who have been priced out of the single-detached and townhouse markets.

Part of the reason for this cautious approach to new multiple-family projects and for the moderate levels of housing starts forecast for Victoria is that the inventory of completed and unabsorbed new homes has been edging up. As of March 2013 there were 482 completed and unoccupied multiple-family homes, compared to 429 units in March 2012 and a 10-year average of 209 units.

The Victoria CMA is on track to reach the forecasted level of housing starts this year. There were 288 housing starts in the first quarter of this year, the exact number recorded during the same period last year. The majority of new construction was multiple-family homes and these were mostly in the municipality of Saanich. Other cities, including Victoria and Langford, had fewer multiple-family housing starts compared to a year ago. In the first three months of 2013, a total of 190 multiple-family housing starts were recorded in the Victoria CMA, a year-over-year increase of 12 per cent.

Figure 2



Source: CMHC

Single-detached housing starts in the Victoria CMA decreased by 21 per cent compared to levels a year ago. The majority of detached home starts expected during the next two years will be located in West Shore markets, as land is less expensive and more abundant than in the core markets. The West Shore is home to nearly half of lots currently for sale through the MLS® system.

A trend of moderation in the level of new construction has been observed since 2010 while absorptions[5] have remained relatively stable. However, the absorption of newly constructed homes showed a decline in the first quarter compared to a year ago. The number of new homes absorbed declined slightly from 442 units in the first quarter of 2012 to 433 units in the first quarter of 2013. The marginal decrease was driven by less absorption of apartment units while single-detached absorptions increased.

Victoria CMA Rental Market to Edge Lower

Rental vacancy rates in the Victoria CMA are forecast to edge slightly lower this year and next, after increasing in 2012. An improving job market and an expected net inflow of 3,000 migrants each year will support demand for rental accommodation. While employment growth and rising post-secondary enrolment will likely support growth in demand for rental housing this year, other factors are expected to keep vacancy rates above the ten-year average (2003-2012 average: 1.1 per cent). Additions to the stock of purpose-built rental accommodation and other types of rental housing including secondary suites, competition from investor-owned condominium and some outflow of renters to the home ownership market will keep the apartment vacancy rate in the 2.0-3.0 per cent range this year

[5] Sales of new and completed homes.

and next. One factor contributing to the outflow of renters to home ownership is that the difference between monthly rental costs and the cost of carrying a mortgage on an apartment condominium is declining. Condominiums prices in many areas have declined from their previous highs, which may entice some renters to make the move to home ownership.

Additions to the stock of privately- (both new build rental apartments and rental condominiums) and publicly-initiated apartment rental housing totalled 1,155 units during the past three years – the highest level of rental construction since the early 2000s. Developers of private rental housing are building in anticipation of lower vacancy rates through the longer term. With construction costs coming down, rental construction has become a more viable development opportunity than in recent years. Also, reduced demand for condominiums freed up some building sites.

The supply of rental stock in the Victoria rental market is expected to expand, partly due to an increase in the number of secondary market rental units. Many detached homes are now being built with secondary rental suites, adding to the supply of rental housingas home-owners continue to take advantage of these "mortgage helpers" as a method of dealing with the elevated costs associated with purchasing a detached home in the Victoria CMA.

Average rents for purpose-built apartments have levelled out in response to higher vacancy rates and are forecast to edge up slightly in 2013 and 2014.

Figure 3

Source: CMHC

Labour Market Continuing on the Path Towards Recovery

Growth in the Victoria labour market will lag the rest of the province this year as the level of employment will remain virtually unchanged in 2013.

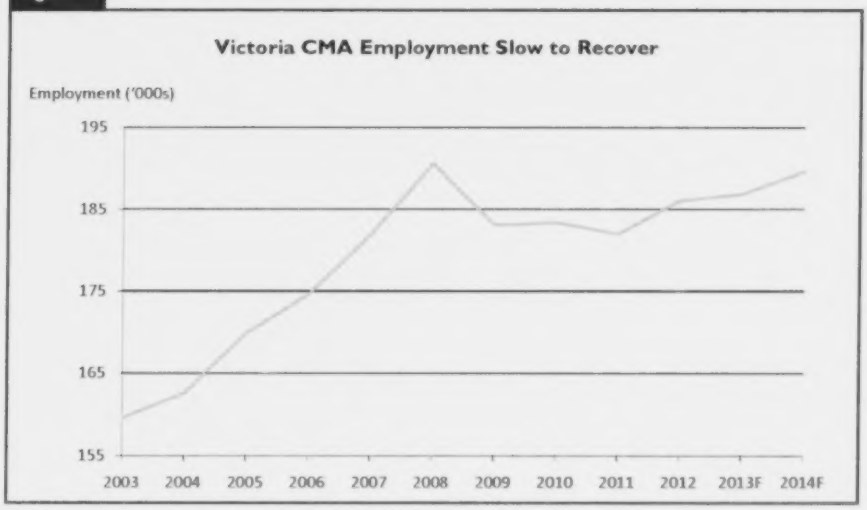
The Victoria labour market has taken longer to rebound from the economic downturn than that of the Vancouver CMA. Employment as of March 2013 remained two per cent lower than the level recorded at the previous peak in 2008. In the first three months of 2013 total employment moderated in both the private and public sectors. Accordingly, the unemployment rate in the Victoria CMA drifted higher– from 5.5 per cent in the first quarter of 2012 to 5.7 per cent in the first quarter of 2013.

The employment situation for the 25 to 44 year age group- who tend to drive purchases of apartment condominium starter homes- is still in the recovery phase and is not likely to drive activity higher until next year. Only 40 per cent of the full-time jobs lost since 2008 for this age group have been recovered. Furthermore, job growth amongst this group has been sluggish in the opening months of 2013. In addition, the ratio of part-time to full-time work remains elevated. Employment growth is slowing in finance, insurance, and real estate, Victoria's largest services sector, reflecting a lower number of resales.

A softer labour market in Victoria will contribute to income growth below the general rate of inflation this year. However, the prospects for the job market appear to have brightened, setting the stage for an improvement in housing demand fundamentals in the remainder of. Perhaps the clearest signal comes from the Conference Board of Canada's Help Wanted Index, which measures growth in online advertised job postings. Based on the index as of April 2013, near-term employment prospects in Victoria are positive.

The employment outlook for Victoria calls for conservative gains in 2013, with the tourism sector forecast to record employment growth next year. In fact, Tourism Victoria is forecasting a 1.5 per cent growth in visitors for both 2013 and 2014. Even as Victoria's economy becomes increasingly diversified, the tourism sector remains a vital component. As jobs are created and earnings increase across North America and internationally, tourism demand will rise, leading to more visitors to Victoria and increased spending. Factors supporting tourism include solid economic growth in British Columbia and Prairies, recovering business confidence, and a better U.S. economy.

Figure 4



Source: Statistics Canada, CMHC forecast

While the Victoria unemployment rate will remain elevated compared to levels prior the economic downturn, limited job growth will keep the unemployment rate stable during the forecast period. The housing market outlook is based on the assumption that employment in the Victoria CMA will increase 0.4 per cent in 2013 and 1.5 per cent in 2014. Accompanying employment gains, and population growth supported by international immigration and interprovincial migration, will sustain demand for both ownership and rental housing.

The Victoria economy will also benefit from the stabilizing effect of post-secondary institutions and demographic-driven demand for services, such as health care, education and tourism. According to BC Stats, 3,216 new households are expected to be added during the forecast period. Victoria is home to three well established post-secondary institutions: The University of Victoria, Camosun College, and Royal Roads University. These educational institutions are important to the local economy, as they attract students to the Victoria CMA.

Transportation-related industries, including port activity and shipbuilding, also offer employment growth opportunities. As well, the proximity to information technology centres in the United States and a well-educated workforce make the Victoria CMA an ideal location for Information Technology (IT) and IT-related employers to establish a Canadian office. Currently, both Microsoft and CGI have offices in the Victoria CMA. Together, these factors should help support some full-time employment growth, which is essential for sustaining housing demand in the Victoria CMA.

Mortgage rates to see modest and gradual increases, but will remain low

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This reflects the downward revisions in GDP forecasts since the publication of the First Quarter Housing Market Outlook, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Mortgage rates are not expected to increase until mid 2014. The anticipated small and steady increases in mortgage rates will lead to somewhat higher mortgage rates by the end of 2014. However, these rates will remain low, by historical standards, over the forecast horizon.

Spotlight on...

New Condominium Apartment Market

The condominium market has taken on increasing significance within Victoria. Condominium apartment construction reached a high in 2009 with 1,559 units completed. Since then, the number of units under construction has declined considerably. CMHC data shows a 14 per cent decrease in the number of condominium apartments under construction in the first quarter of 2013, compared to the same period in 2012. As a result, the number of units under construction is at its lowest since January 2004 (see Figure A). The slowdown in apartment condominium construction was in response to weaker economic conditions, a growing inventory of completed and unoccupied apartment condominiums, and reduced resale market demand.

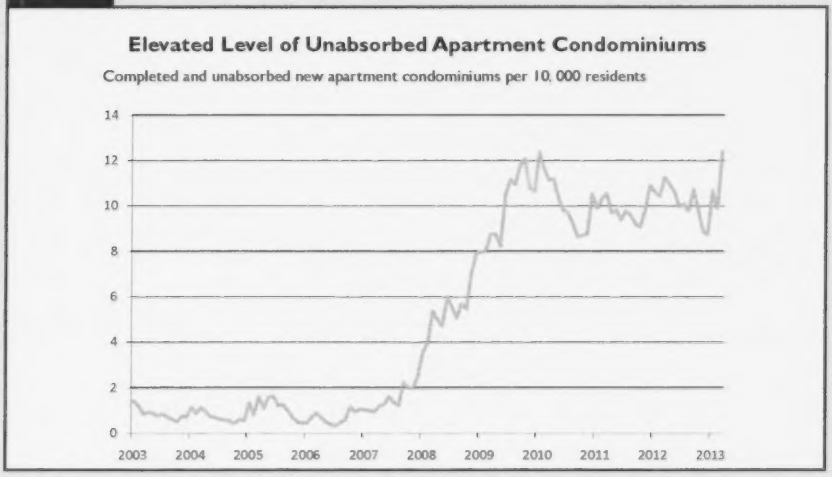
While the pipeline of apartment condominiums under construction has declined since peaking in 2009, the inventory of new, completed and unsold units remains elevated due to the strong level of starts recorded in 2006 and 2007. At the end of the first quarter of 2013, 376 apartment condominium units were completed and unsold, which equates to nine months of supply based on the average rate of absorptions[6] during the past six months. Absorptions of new condominium apartments declined by 50 per cent to 44 units per month, compared to 88 units per month between 2007 and 2009.

The outlook for the condominium apartment market in Victoria depends on the strength of expected sales as well as the response of developers to changes in market conditions. Given the existing supply, apartment starts are forecast to remain stable in 2013. Anecdotal evidence suggests developers have been providing incentives, such as cash credits and free upgrades, to encourage sales. Such measures,

Figure A

Source: CMHC

Figure B



Source: CMHC and Conference Board of Canada.

[6] Absorption data, as tracked by CMHC, does not reflect sales during pre-construction and construction phases. Units in buildings under construction are noted as such in the CMHC data, and sales (absorptions) are recorded only once the building is completed.

continued...

along with improving employment figures, the low interest rate environment and population growth, are expected to sustain sales of new condominium apartments during the forecast period.

In terms of the price forecast for new condominiums, expectations are for some short-term fluctuations as developers compete for sales. Despite the price and location advantages that should support a fairly stable outlook for condominium demand, price growth will be challenged by supply pressures. Mitigating factors, such as the desirability of condominiums to first-time homebuyers and investors in a relatively-tight rental market, as well as builders' ability to delay projects in the pre-construction phase if demand eases, reduce the probability of a significant price change.

Forecast Summary Victoria CMA Spring 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	827	609	552	600	8.7	720	20.0
Multiples	1,291	1,033	1,148	1,100	-4.2	1,080	-1.8
Semi-Detached	234	84	86	80	-7.0	80	0.0
Row/Townhouse	162	198	114	100	-12.3	100	0.0
Apartments	895	751	948	920	-3.0	900	-2.2
Starts - Total	2,118	1,642	1,700	1,700	0.0	1,800	5.9
Average Price ($):							
Single-Detached	635,664	667,023	653,278	685,000	4.9	700,000	2.2
Median Price ($):							
Single-Detached	595,500	610,000	529,900	600,000	13.2	620,000	3.3
New Housing Price Index (% chg.)	-2.8	-1.6	-2.8	-1.0	-	1.4	-
Resale Market							
MLS® Sales	6,169	5,773	5,460	5,500	0.7	5,800	5.5
MLS® New Listings	13,250	13,427	12,766	11,900	-6.8	12,000	0.8
MLS® Average Price ($)	504,561	498,300	484,164	480,000	-0.9	490,000	2.1
Rental Market							
October Vacancy Rate (%)	1.5	2.1	2.7	2.3	-0.4	2.0	-0.3
Two-bedroom Average Rent (October) ($)	1,024	1,045	1,059	1,061	-	1,066	-
One-bedroom Average Rent (October) ($)	806	819	828	835	-	850	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level (persons)	183,400	182,000	186,100	186,800	0.4	189,600	1.5
Employment Growth (%)	0.2	-0.8	2.3	0.4	-	1.5	-
Unemployment rate (%)	6.0	6.1	5.4	5.5	-	5.5	-
Net Migration	4,978	2,777	2,692	3,000	11.4	3,000	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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